

The forecasts included in the 2002 Strategic Financial Plan were prepared before the September 11, 2001 terrorist attacks on New York City and Washington, D.C. The forecasts reflected a slowing national economy that would come close to a recession in the third and fourth quarters of 2001. Since September 11, the economists that prepared the economic forecasts have concluded that the nation entered a recession in the third quarter of 2001.

The real impacts on the County of the economic downturn, exacerbated by the terrorist attacks and subsequent war, will not be known for months. Complicating the County's situation is the State's budget situation; the State of California is facing a budget deficit caused in large part by emergency energy purchases using general fund money early in 2001. Possibly offsetting some of the negative impacts is the expectation of increased federal spending for defense, anti-terrorism measures and economic stimulus. Also priming an economic recovery is the Federal Reserve's lowering of interest rates. At the time this document went to press, there had been eleven interest rate reductions since January 1, 2001 resulting in a federal funds rate of 1.75%, the lowest rate since 1961.

Because of the uncertainties both favorable and unfavorable, the authors of the forecasts in an addendum to their forecasts dated September 28, 2001, advised the County Executive Officer and the Chief Financial Officer to continue to use the forecasts as a baseline "but carefully examine and evaluate fiscal and monetary policies over the next few months before making any revisions." With that advice in mind, the Board of Supervisors adopted the 2002 Strategic Financial Plan on October 30, 2001 and prudently reserved \$30 million (from unanticipated carryover revenue) for future operations forecast in the 2002 Plan.



The 2002 Strategic Financial Plan identifies a challenge in 2006. The chart below indicates that uses of General Purpose Revenue may outstrip sources beginning in Fiscal Year 2006-2007. The County department heads working with the County Executive Office have identified criteria and strategies that can be implemented before the projected shortfall to bring

sources and uses in balance in a reasonable and efficient manner.



Although the 2002 Strategic Financial Plan provides the framework for the preparation of the Fiscal Year 2002-2003 Budget, it does not supercede the budget process. Once the Board adopts the Plan, it is used to provide direction for the budget process. The budgeting for new programs, new positions, infrastructure improvements and major equipment requests are still subject to justification of need, efficiency and measurable outcomes.

The constrained financial outlook projects that sufficient General Purpose Revenues will be available to operate on-going programs and approved Strategic Priorities from prior years. Total projected expense is forecast to grow on average at about 4% per year in the five-year period between Fiscal Year 2001-2002 and Fiscal Year 2006-2007.

2002 Outlook - Source vs. Uses

